

**SURREBUTTAL TESTIMONY
OF**

JEROME D. MIERZWA

**ON BEHALF
OF**

SOUTH CAROLINA DEPARTMENT OF CONSUMER AFFAIRS

DOCKET NO. 2019-290-WS

February 14, 2020

I. INTRODUCTION

Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. My name is Jerome D. Mierzwa. I am a principal and President of Exeter Associates, Inc. ("Exeter"). My business address is 10480 Little Patuxent Parkway, Suite 300, Columbia, Maryland 21044. Exeter specializes in providing public utility-related consulting services.

Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY IN THIS PROCEEDING?

A. Yes. My Direct Testimony was presented on behalf of the South Carolina Department of Consumer Affairs ("Consumer Advocate") on January 23, 2020.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my Surrebuttal Testimony is to respond to certain aspects of the Rebuttal Testimony presented by Dante DeStefano on behalf of Blue Granite Water Company ("BGWC").

Q. BRIEFLY SUMMARIZE THE RECOMMENDATIONS PRESENTED IN YOUR DIRECT TESTIMONY.

A. In my Direct Testimony I recommended that BGWC's existing base facility/monthly customer charges should remain unchanged. I also recommended that in its Rebuttal Testimony, the Company should address whether it would be reasonable to assess volumetric charges for sewer service based on customer water usage, and address whether the current system of assessing Commercial customer sewer charges based on each customer's Single-Family Equivalent ("SFE") is reasonable.

1 **Q. BEFORE RESPONDING TO MR. DESTEFANO’S REBUTTAL TESTIMONY**
2 **THAT ADDRESSES YOUR RECOMMENDATIONS, ARE THERE ASPECTS**
3 **OF MR. DESTEFANO’S REBUTTAL TESTIMONY PRESENTED IN**
4 **RESPONSE TO THE DIRECT TESTIMONY OF THE OFFICE OF**
5 **REGULATORY STAFF (“ORS”) THAT YOU WOULD LIKE TO ADDRESS?**

6 **A.** Yes. In response to a suggestion by the ORS, Mr. DeStefano indicated that the
7 Company is open to filing a Cost of Service Study in its next rate case, and that this
8 would provide the best roadmap for setting appropriate base facility and volumetric
9 charges for the Company’s customer groups (Rebuttal at 37). As subsequently
10 explained, movement toward the adoption of cost of service based rates should not be
11 deferred until BGWC’s next base rate case, but should begin in this proceeding.
12 There is no basis to delay movement toward cost of service based rates in this
13 proceeding.

14 **Q. WHAT IS MR. DESTEFANO’S RESPONSE TO YOUR**
15 **RECOMMENDATION THAT BGWC’S EXISTING BASE**
16 **FACILITY/MONTHLY CUSTOMER CHARGES SHOULD REMAIN**
17 **UNCHANGED?**

18 **A.** Mr. DeStefano claims that the cost of service analysis I utilized to support my
19 recommendation is incomplete because it does not account for post-Test Year plant
20 additions, cash working capital, and other *pro-forma* adjustments. He claims that a
21 comprehensive Cost of Service Study would incorporate cost allocations between
22 service territories on a more detailed level. As such, the Company believes it is
23 premature to draw conclusions about the appropriate base facility/monthly customer
24 charges based on the data available in the current proceeding.

**Q. WHAT IS YOUR RESPONSE TO MR. DESTEFANO'S CLAIM
CONCERNING YOUR ANALYSIS OF BASE FACILITY/MONTHLY
CUSTOMER CHARGES?**

A. A detailed breakdown of plant balances and expenses by account is necessary to perform a cost of service analysis. My cost of service analysis was based on the end of test year per book trial balances per account provided by the Company. Mr. DeStefano is correct, the trial balances for each account did not include the Company's *pro-forma* adjustments. That is because the Company did not present its *pro-forma* adjustments by account. Therefore, I was unable to include the *pro-forma* adjustments in my customer charge cost of service analysis. Nevertheless, I have modified my cost of service analysis to estimate the impact of incorporating the Company's proposed post-test year plant additions, cash working capital, and other *pro-forma* adjustments. My modified customer cost of service analysis is presented as Revised Exhibit JDM-1 which is attached to my testimony. As shown on Revised Exhibit JDM-1, the pro-forma adjusted consolidated cost of service is approximately \$9.40, which is even lower than the customer charge presented in my Direct Testimony and significantly less than the current base facility/month customer charge for Service Territory 1 (\$14.38) and Service Territory 2 (\$28.59). Therefore, the existing base facility/monthly customer charges for each Service Territory should not be increased. I would note that the revised cost of service customer charge presented on Revised Exhibit JDM-1 is based on the Company's requested revenue increase. The actual increase authorized by the Commission in this proceeding will certainly be less than the increase requested by the Company, and a cost of service based customer charge on the authorized increase would be less than \$9.40.

1 **Q. PLEASE PROVIDE AN EXAMPLE AS TO HOW YOU ADJUSTED THE**
2 **COST OF SERVICE ANALYSIS INITIALLY PRESENTED IN EXHIBIT**
3 **JDM-1 TO REFLECT THE COMPANY’S *PRO-FORMA* ADJUSTMENTS.**

4 **A.** As indicated in Schedule C – Service Territory 1 and Service Territory 2, page 2 of 7
5 of the Company’s filing, the Company is proposing *pro-forma* adjustments to
6 increase gross plant in service from \$47,877,407 to \$50,762,837, or 6.03 percent. To
7 account for this *pro-forma* adjustment, I have increased the base facility/monthly
8 customer charge gross plant in service indicated in my initial analysis presented in
9 Exhibit JDM-1 by 6.03 percent.

10 **Q. WHY IS YOUR REVISED CUSTOMER CHARGE LOWER THAN THE**
11 **CUSTOMER CHARGE PRESENTED IN YOUR DIRECT TESTIMONY OF**
12 **\$10.00 AFTER INCORPORATING THE COMPANY’S *PRO-FORMA***
13 **ADJUSTMENTS?**

14 **A.** The revised customer charge is lower primarily for two reasons. First, while
15 reviewing the initial customer charge analysis presented in my direct testimony I
16 discovered I had overstated the return and income tax component of customer costs.
17 My revised analysis corrects this overstatement. Second, as indicated on Schedule B –
18 Service Territory 1 and Service Territory 2, page 2 of 4 of the Company’s filing,
19 operating expense *pro-forma* adjustments total \$954,038. Included in the Company’s
20 operating expense *pro-forma* adjustments is an increase of \$968,134 in purchased
21 water expense. Purchased water expense is not considered an appropriate expense to
22 include in a customer cost analysis under the base-extra capacity cost of service
23 methodology. Eliminating this purchased water expense *pro-forma* adjustment results
24 in the remaining *pro-forma* operating expense adjustment being negative, which
25 results in an overall decrease in operating expense in my revised analysis.

1 **Q. DO YOU HAVE ANY COMMENTS CONCERNING MR. DESTEFANO'S**
2 **RECOMMENDATION TO DEFER COST OF SERVICE CONSIDERATIONS**
3 **WITH RESPECT TO THE DESIGN OF RATES UNTIL THE COMPANY'S**
4 **NEXT PROCEEDING?**

5 **A.** Yes. The cost of service customer charge I am presenting in this proceeding, which is
6 based on the base-extra capacity cost of service methodology commonly utilized by
7 water utilities, is reasonable and indicates that the Company's current and proposed
8 base facility/monthly customer charges are significantly in excess of cost of service
9 based customer charges. I believe it is appropriate to begin movement toward cost of
10 service rates in this proceeding, and this movement should not be deferred until the
11 Company's next base rate proceeding. Failure to begin the movement toward cost of
12 service rates in this proceeding could require more significant changes in rates in
13 future proceedings which may be inconsistent with the principle of gradualism, one of
14 the principles of a sound rate design.

15 **Q. IN YOUR DIRECT TESTIMONY, YOU INDICATED THAT IN ITS**
16 **REBUTTAL TESTIMONY, THE COMPANY SHOULD ADDRESS**
17 **WHETHER IT WOULD BE REASONABLE TO ASSESS VOLUMETRIC**
18 **CHARGES FOR SEWER SERVICE BASED ON WATER USAGE. WHAT**
19 **WAS MR. DESTEFANO'S RESPONSE TO THIS RECOMMENDATION?**

20 **A.** While it appears that Mr. DeStefano does not conceptually oppose the concept of
21 assessing volumetric charges for sewer service, he notes that only approximately half
22 of the Company's sewer customers are also provided water service by the Company.
23 Thus, the lack of water usage data prevents BGWC from adopting volumetric billing
24 for sewer-only customers. Mr. DeStefano also identifies other relevant considerations
25 with respect to adopting volumetric charges for sewer service.

1 **Q. IN YOUR VIEW, HAS THE COMPANY ADEQUATELY ADDRESSED**
2 **YOUR RECOMMENDATION TO ASSESS VOLUMETRIC CHARGES FOR**
3 **SEWER SERVICE?**

4 **A.** Yes. I believe the lack of water usage data for approximately half of the Company's
5 sewer customers would make volumetric billing for sewer service impractical. As
6 indicated in my Direct Testimony, the Consumer Advocate had served discovery on
7 BGWC investigating the adoption of volumetric billing for sewer service, but that
8 discovery was outstanding at the time I presented my Direct Testimony.

9 **Q. WHAT WAS MR. DESTEFANO'S RESPONSE TO YOUR**
10 **RECOMMENDATION THAT IN REBUTTAL TESTIMONY THE**
11 **COMPANY ADDRESS WHETHER THE CURRENT SYSTEM OF**
12 **ASSESSING COMMERCIAL CUSTOMER SEWER CHARGES BASED ON**
13 **EACH CUSTOMER'S SFE IS REASONABLE?**

14 **A.** Mr. DeStefano claims that a Cost of Service Study in the Company's next base rate
15 case is the most prudent approach to evaluating whether a change to the current SFE
16 method is reasonable.

17 **Q. WHAT IS YOUR RESPONSE TO MR. DESTEFANO'S CLAIM**
18 **CONCERNING THE CONTINUED USE OF SFES FOR COMMERCIAL**
19 **CUSTOMERS?**

20 **A.** I made my recommendation that the Company address the reasonableness of the
21 current method of using SFEs in its rebuttal testimony because the Company had not
22 responded to discovery related to this issue at the time I prepared my direct
23 testimony. The Company has now responded to the outstanding discovery and my
24 review indicates that the use of SFEs appears reasonable.
25

1 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

2 **A. Yes, it does.**

Revised Exhibit JDM-1

BLUE GRANITE WATER COMPANY
Calculation of Customer Charge Cost of Service

Rate Base	
Gross Plant In Service	\$8,396,616
Accumulated Depreciation	(\$560,307)
Net Plant In Service	\$7,836,309
Deferred Charges	(\$94,003)
Cash Working Capital	133,266
Contributions In Aid of Construction	(1,827,242)
Accumulated Deferred Income Taxes	(185,863)
Customer Deposits	(705)
Plant Held for Future Use	61,311
Plant Acquisition Adjustment	(138,549)
Excess Book Value	0
Total	\$5,784,524
Return	\$270,161
Maintenance Expenses	
Salaries and Wages (1)	\$255,673.14
Capitalized Time	(22,028)
Purchased Power	0
Purchased Water - Pass Through	0
Maintenance and Repair	335,342
Maintenance Testing	9,767
Meter Reading	22,835
Chemicals	0
Transportation	13,711
Operating Exp. Charged to Plant	0
Total	\$615,300
General Expenses	
Salaries and Wages	\$0
Office Supplies & Other Office Exp.	46,995
Regulatory Commission Exp.	24,417
Pension & Other Benefits	69,816
Rent	18,970
Insurance	54,020
Office Utilities	44,654
Outside Services	83,324
Non-Utility Misc Income	0
Miscellaneous	7,211
Total	\$349,407
Depreciation	\$77,142
Amortization of CIAC	(58,117)
Taxes Other Than Income	412,822
Income Taxes - Federal	57,773
Income Taxes - Federal	17,260
Sale of Utility Property	0
Amort. Investment Tax Credit	(824)
Amortization of PAA	(2,429)
Total	\$503,626
Total Operating Expenses	\$1,468,334
Interest on Debt	\$128,872
Total Customer Costs	\$1,867,366
Bills	198,945
Customer Charge	\$ 9.39

Note:

(1) Includes general expense salaries and wages, capitalized time.